The Virgin Islands Consortium

VI Noosed To Bondholders As Senators Pass $247 Million Debt Financing Bill

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Ernice Gilbert November 04, 2016

ST. THOMAS -- During an hourslong Senate session that was held at the Alexander Farrelly Justice Complex in the Superior Court on Thursday afternoon, two senators broke ranks and voted against the $247 million working capital bill that was vetoed by Governor Kenneth Mapp and resent to the Senate demanding changes, with the governor deriding the measure as "fatally flawed," and seeming to take no blame for the defective measure.

The bill passed with flying colors, with 13 senators voting in the affirmative. Its passage will avert a government shutdown, make available some $15 million in tax refunds, as well as provide much needed aid to the territory's hospitals; funding for the Waste

Management Authority, and fulfill some obligations of the fiscal year 2017 budget. The bill also provides $100 million to the Government Employees' Retirement System, through an amendment sponsored by Senator Tregenza Roach, fulfilling at least part of the government's unfunded liability.

But Senators Janette Millin Young, a Democrat, and Mr. Roach, an Independent, voted against the measure, although the two had divergent reasons for doing so. For Mrs. Millin Young, her Nay vote appeared to fall in line with a long distrust of the Mapp administration, and a feud between Mr. Mapp and the senator that was brought to the fore following the governor's remarks to Mrs. Millin Young in January, when he called her a jackass, setty fowl, stupid and crazy.

"If a choice is bad and the other is worse, I'm not taking none of them," she said, referring to the option of giving the Mapp administration more money to spend, compared to not doing so and having to take austerity measures. "The difference between me and you is you believe the governor, and I don't. When they say the sky is falling, I don't believe. They have shown us that you can give them a whole big bag of money and they will spend." Mrs. Millin Young was in favor of finding other ways to grow the economy and create opportunity for Virgin Islanders; though she was not clear on Thursday how she would achieve the growth.

She said, "$147 million given to them right now is not going to last, just like the $220 million didn't last... She then took a direct shot at the governor: "When the ambulances were down on St. Croix and people were partying in California, it was not a problem. But who is the biggest loser now?"

The Senate erupted with laughter.

For Mr. Roach, however, it was a matter of indefinitely placing the territory's future and past borrowing in an unfavorable position; essentially placing a noose around the territory's neck -- even if it files for bankruptcy.

That was the crux of the matter on Thursday. Finance Commissioner and Public Finance Authority Executive Director Valdamier Collens, who was the lone administration official fielding questions at the session, explained that the markets wanted the Virgin Islands to place a lien on its bonds moving forward and retroactively, which means even if the territory were to file for bankruptcy, bondholders would be paid first, before the territory could satisfy even essential needs.

In essence, bondholders have a chokehold on the territory's finances, as they would be paid first no matter what trouble the territory faces. And if the Virgin Islands falters further into financial crisis, per its new lien commitment, it would not be able to pay, say, teachers, and other essential employees; it would not be able to do anything in the way of payments to its own government and essential services, unless bondholders were first financially satisfied.

Senators described the issue as being between a rock and a hard place: You refuse to pass the bill and government employees would have to be laid off. You pass it, and the territory is essentially in the hands of its creditors.

Asked by Senator Neville James why the territory needed to place a lien on its bonds, when the current contract sees rum cover-over funds, before being used for anything else, go directly to pay bondholders, Mr. Collens said prior to Puerto Rico’s PROMESA [Puerto Rico Oversight Management and Economic Stability Act], the territory was viewed as a state, and since states can't declare bankruptcy, the current contractual agreement, which did not include a lien, was satisfactory to bondholders. "But with PROMESA in place, it makes investors skittish. The statutory lien eliminates that risk of bankruptcy and strengthens the contractual relationship now in place," Mr. Collens said.

Mr. Collens said liens were becoming more commonplace, and that they make bonds more marketable. And he said the territory's bonds would be further downgraded, at least by Fitch, if the lien was not included in the bill.

The senators went on to pass the measure, but not before slamming Mr. Mapp for what they described as careless and irresponsible wording in a transmittal letter, which they say has without reason thrust the public into uncertainty relative to the islands' financial future.

"The governor had no right to slam us like that; no matter how good we are with him, and we need to let him know that," Senator Positive Nelson said. The senators drew contrast between Mr. Mapp's wording relative to the flawed bill, and that of Mr. Collens, who said that both the legislative and administrative branches of government had some role to play in the faux pas.

Senator Jean Forde joined the chorus, assailing the governor for blaming the senate for the flawed measure. "I too have no appreciation for that method," Mr. Forde said. He said it's an election year and there would be political maneuvering, but individuals should not have been thrown under the bus, he contended.

Mr. Forde said the notion among residents is that the governor is controlling the senators and that they would rubber-stamp the measure. But that was not the case, he contended, offering that it was up to the Senate to decide whether to approve the lien or not.

"It's a contradiction when his representative comes in and thanks the Senate for its unwavering cooperation. But I'm not going to waste my breathe no more, because it doesn't seem like the governor can help himself. He needs a timer," Mr. Roach said, referring to when the governor speaks. He later added, "It makes it difficult to trust the governor."

As for the territory's financial condition, Mr. Collens said the government had only seven days of cash on had. "There's no reason why we should be in such a precarious liquidity position," Mr. Collens said. "That's not a good position to be in."

Mr. Collens said the days of simply going to the markets for funding and not providing a plan as to how the territory intended to pay the debt, are over. He said the government's five-year recovery plan is extremely critical and directly linked to the government's efforts in the markets. "We can't go to the market for working capital without a plan," Mr. Collens said. "Especially since the downgrade. They want to make sure the plan has some teeth." The USVI is being scrutinized, and it's not just about the statutory liens, but the markets also want to see discipline, Mr. Collens said.

"That includes how we spend our money," Senator Almando Liburd countered. Mr. Collens concurred. Mr. Liburd lamented the financial condition of the territory, stating that the current picture does not look good. And he was not sold on the Mapp administration's recovery plan.

Mr. James said some of the Limetree Bay windfall, had it not been used to address debt, could have been used as cushion in the present situation. But Mr. Collens said the windfall had a myriad of obligations tied to it even before it was made available, to include funding pay increases and paying down debt, among other commitments.

"The public is of the opinion that the money was blown, when it was used to pay debt that was due nine months later," Mr. James said. "The money was due, senator, the money was due," Mr. Collens responded.

"This situation gives me heartburn," Senator Nereida Rivera-O'Reilly admitted. "The borrowing that we authorized and the budget that was approved -- over $700 million -- were going to be viable and successful, and we'll be able to do the payback of that loan, if we are able to successfully implement the five-year plan?" Mr. Collens said borrowing would be possible without the five-year plan, but that the five-year plan needed to be implemented to inject confidence in the markets.

Mrs. Rivera-O'Reilly, however, feared that the territory, soon enough, would be at the same juncture, and she wanted to see milestones set, and people held accountable, to ensure that the plan is implemented. Mr. Collens said tough decisions must be made.

"But who's going to go home if you cannot roll out this five-year plan? I see lack of execution. What I see is inertia," Mrs. Rivera-O-Reilly countered. "Give me some comfort that people are going to be held accountable. Mr. Collens said the inevitable is within reach if some of the five-year plan initiatives were not implemented. He was speaking of government layoffs and other austerity measures.

"My team and I authored this document, and we're definitely going to make ourselves accountable," Mr. Collens said, making a commitment to Mrs. Rivera-O'Reilly.

The governor was chided multiple times by senators, with Mr. James pointing to the road projects, with over $150 million waiting to be spent, and the Paul E. Joseph Stadium, as a sign of the administration's incompetence.

"The GARVEE bonds is a joke; and Paul E. Joseph is a joke," Mr. James fired. He added that the public was getting the impression that the Senate has not been doing its work.

Senator Novelle Francis said austerity measures should be taken as part of any effort to climb out of debt. And he mentioned forgoing ceremonial vehicles relative to the governor's choice of transportation as a start.

Yet, even with all the back and forth, Mr. Collens sought to reassure those concerned about the territory's financial condition that the situation was not as bad as it seems.

"We're not Puerto Rico, we've never defaulted, we have mechanisms that have been in place for decades. But the Puerto Rico virus spread to the Virgin Islands," Mr. Collens said. "We don't need an oversight committee. We've developed a plan as a government, but it's time to execute."

Without the liens, interest rates on the territory's bonds would climb by 1 percent, which Mr. Collens said would be a lot of money to pay on a $247 million bond with interest rates that are already high.

Senators said the situation amounted to a catch 22: Borrow money to balance the budget, or send gov't employees home, as the budget would not be balanced without a cash infusion of $110 million.

In the end, senators said they understood the importance of the measure, and their responsibilities as senators, notwithstanding the governor's scolding. They argued that not approving the measure would mean laying off government employees, an action no senator was ready to take on Thursday, mere days before the general election.

Even so, "the Government of the Virgin Islands is in real trouble," Mr. Liburd grimly noted. "And so every opportunity we get to make money, we should take advantage of it."